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ABSTRACT

This student booklet with accompanying teacher's guide examines the issues and controversies surrounding the nation's debt and deficits. The first section defines key terms relating to the issues and traces how the United States got on the road to fiscal disorder. The second section examines what specific federal spending programs have triggered the accumulation of large annual deficits. Section 3 compares the recently proposed deficit reduction plans made by President Clinton, Ross Perot, and the Concord Coalition. The last section addresses the issue of whether people are prepared to sacrifice to bring down the debt and, if they are not, what the consequences might be for the nation. Chapter titles include: (1) "Deficits As Far As The Eye Can See"; (2) "Budget Deficits and the National Debt"; (3) "Federal Spending: Where Does the Money Go?"; (4) "The Pain and Gain of Deficit Reduction"; and (5) "Is America Ready for 'Fair, Shared Sacrifice'?" Nine bibliographic references for further reading conclude the text. The teacher's guide offers classroom activities, handouts, and test materials around which to create a comprehensive lesson plan. Used in conjunction with the student booklet, this teacher's resource will help students gain an understanding of why the United States has such huge budget deficits and how they may be reduced in the future. (EH/AA)

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AMERICA'S GROWING DEBT

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Understanding the Budget Deficit

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AMERICA'S GROWING DEBT

Understanding the Budget Deficit

By Tim Walker

Close Up Publishing

Close Up Foundation
Stephen A. Janger, President

The Close Up Foundation is a nonprofit, nonpartisan organization that encourages responsible participation in the democratic process through educational programs and publications in government and citizenship. Since its founding in 1970, Close Up has been committed to developing new and better ways for young people, teachers, and a widening circle of citizens of all ages to gain a practical understanding of how public policy affects their lives and how individual and collective efforts affect public policy.

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Deficits As Far As The Eye Can See

On February 17, 1993, President Bill Clinton, in his first speech before a joint session of Congress, warned the lawmakers and the American people that the national security of the United States was at risk. He called on Americans to "unite" and "sacrifice" to help preserve a bright future for their nation. Was the United States on the verge of war? According to President Clinton, in some ways it was. He declared that instead of communism or a foreign dictator, the enemy was America's own economic decline. At the core of the crisis was a $4 trillion national debt. The president warned that "deficits as far as the eye can see" were slowly sapping the country's economic strength and, if left alone, would cripple the United States in the twenty-first century. The debt—an issue long ignored by the public and Washington—was moving front and center in the debate over the economic future of the United States.

That August, Congress passed President Clinton's budget, which is projected to help lower the budget deficit, or at least slow its rate of growth, in 1994 and 1995. However, the long-term prognosis is not good. Skyrocketing health care costs and the expansion of federal benefits could send the deficit spiraling upward again by the end of the decade.

There is no question about the size of America's debt—it is enormous and growing every year—but there is considerable disagreement over its effect on the economy and American society. Some economists and politicians believe that mounting deficits could sink the United States to the economic status of a Third World nation. Others argue that deficits are not a problem grave enough for the government to take drastic measures that could hurt millions of people and the economy.

Today, Americans appear to be better educated about the potential dangers posed by the nation's debt and deficits than ever before. However, the legislative priorities of lawmakers today—creating jobs, securing affordable health care, crime control—may take precedence over reducing America's red ink, a choice many fear could be fateful for future generations of Americans.

America's Growing Debt examines the issues and controversies surrounding the nation's debt and deficits. The first section defines key terms relating to the issue and traces how the United States got on the road to fiscal disorder. The second section examines what specific federal spending programs have triggered the accumulation of large annual deficits. Next, *America's Growing Debt* compares the recently proposed deficit reduction plans made by President Clinton, Ross Perot, and the Concord Coalition. The last pages ask whether Americans are prepared to sacrifice to bring down the debt and, if they are not, what the consequences might be for the nation.

Budget Deficits and the National Debt

To understand the deficit, it is helpful to think of the federal government as a typical American household or consumer. Like many Americans, the government has in most years lived beyond its means—that is, it spends more than it earns. The federal government "earns" money by collecting billions of dollars from taxpayers. These taxes are spent on programs for defense, education, health care, and transportation, to name just a few. However, the magnitude and cost of such programs far exceeds the amount of money the government collects in taxes. The amount by which the government's yearly spending exceeds its yearly collected revenues is called the budget deficit. If revenues equal or exceed expenditures, the government has a balanced budget—something that has not been achieved since 1969. In fiscal year 1993, the deficit reached a record $292 billion and is projected to decrease to around $250 billion in fiscal year (FY) 1994. (The federal government's fiscal year runs from October 1 to September 30.)

The more budget deficits the United States runs up, the larger the national debt grows. The national debt is the money the United States owes from borrowing to pay off all the accumulated budget deficits since the nation's beginning. The federal government borrows this money from individuals, banks, businesses, and foreign nations. By the end of 1993, the debt was $4.4 trillion and was growing at a rate of about $1 billion every day.

Like an individual in debt, the government must pay interest—the price of borrowing money—on the national debt. This interest has increased over the years because the debt has grown. Today, in-

This clock in downtown New York City calculates the size of the national debt twenty-four hours a day.

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terest on the national debt consumes 14 percent of all federal spending.

An American Tradition

The debate over the impact of budget deficits and the national debt has a long history in the United States. The nation's founders disagreed over the wisdom of deficit spending. James Madison argued that borrowing money to invest produces economic prosperity. Thomas Jefferson, however, warned that deficits could burden future generations.

"We should consider ourselves unauthorized to saddle posterity with our debts," Jefferson wrote, "and morally bound to pay them ourselves." Until the 1930s, a balanced budget was always the federal government's policy.

Emergency and Investment Debt. During the Great Depression, President Franklin Roosevelt departed from the tradition of balanced budgets and implemented massive government spending and investment (the "New Deal") to stimulate the economy. Large budget deficits resulted, but the Roosevelt administration believed that because millions of Americans were out of work and hungry, the government had no choice but to borrow to help pull the country out of misery. During World War II, another national emergency, the United States ran up a debt of $178 billion to pay for the war effort. (Great Britain and other allies also ran up huge deficits to defeat Nazi Germany.) However, the U.S. economy boomed after World War II, and the government ran huge surpluses, enabling it to pay off the wartime debt.

As it was during the New Deal, deficit spending on programs that build the economy and expand the tax base can be a useful tool for the federal government. Similarly, when an individual opens a small business, he or she will likely be in debt and repaying loans until the business breaks even. If the venture succeeds and produces large profits, clearly the debt was worthy of the investment and the risk. However, if the investment fails, the businessperson is left with a huge debt and no foreseeable way to pay it off. Consequently, that person's standard of living is likely to suffer until the debts are eliminated.

The Economy and Deficits. Similar to the effect a struggling business has on its owner, an economic recession makes it difficult for a nation to eliminate its debt. High unemployment shrinks the tax base because there are fewer workers paying income taxes. This shortfall of revenue contributes to deeper deficits and a larger national debt. In 1990, President George Bush and Congress passed a deficit reduction bill that depended on a growing economy. That year, the United States entered an unexpectedly long recession that eroded the bill's effectiveness.

However, a robust economy does not necessarily guarantee small deficits. In the 1980s, solid economic growth was accompanied by historically high federal spending, and the deficit soared.

The 1980s Legacy: Spend Now, Worry Later

It took the United States 205 years—1776 to 1981—to accumulate a national

debt of $1 trillion. The country needed only nine more years to triple the debt to more than $3 trillion. What economic and fiscal policies produced this dramatic increase?

During the 1980s, the American people were given what many analysts call a "free lunch": increased federal benefits, a formidable national defense, and low taxes—a combination many believe triggered huge deficits and economic stagnation in the early 1990s.

When Republican Ronald Reagan campaigned for president in 1980, he criticized Democratic President Jimmy Carter for allowing the deficit to reach $70 billion and the national debt to reach $1 trillion, which he depicted as "a stack of $1,000 bills sixty-seven miles high." After his election, Reagan declared he could balance the budget by 1984 with a one-two punch of cuts in social spending and an expanded tax base created by his supply-side economic program. Supply-side economists contend that tax cuts give business and consumers more cash for investment and spending, two crucial elements for economic growth. The millions of new jobs created would then generate more revenue for the federal government.

President Reagan promised to cut spending to offset the temporary lost revenue of tax cuts and help balance the budget. Many programs were cut, but those that dominate the federal budget—Social Security, Medicaid, and Medicare—grew with few constraints throughout the decade. In particular, the Democrats—the party with a history of sponsoring broad social spending—refused to consider scaling back these popular programs. The Reagan administration's defense buildup swelled the federal budget even more.

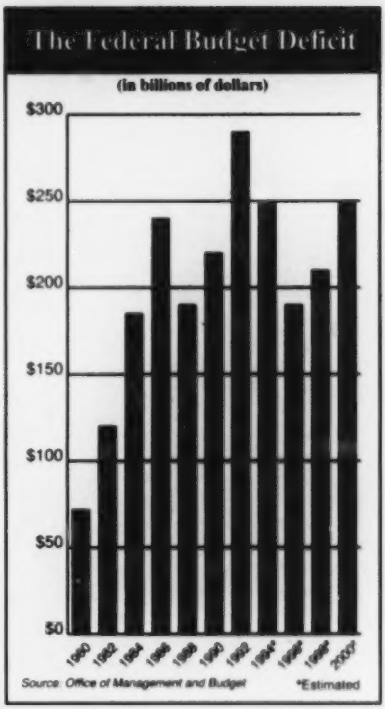
"We Thought the Bill Would Never Come Due." In effect, the Republican president and the Democrats controlling Congress struck a politically popular bargain that most economists agree increased the deficit and the national debt in the mid-1980s: increased spending and low taxes.

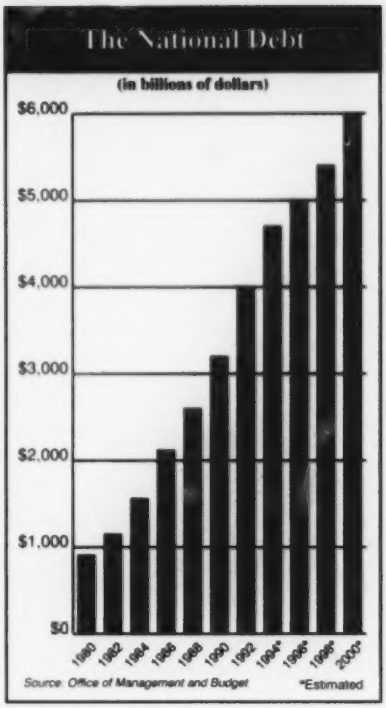
"We thought somehow we could have it all," recalled Leon Panetta, former congressman and current director of the Office of Management and Budget. "We could cut taxes, raise defense spending, raise benefits—and the bill would never come due."

President Reagan's economic program did produce prosperity during the 1980s. But matching the growth of the economy step-for-step was the growth of the budget deficit and the national debt. Critics argued that job growth, although substantial, was not strong enough to provide the additional revenue base to pay for the increased spending on defense and federal benefits. Consequently, the budget deficit ballooned from $70 billion in 1981 to $220 billion in 1986, and the national debt doubled to over $2 trillion. Although many economists and lawmakers saw a debt crisis looming on the horizon, the public was too busy enjoying the robust economy to notice.

Is the Deficit a Crisis?

Today, the population as a whole is more aware of the budget deficit and the national debt, but people remain divided over their potential to inflict long-term





damage to the country. On one side, "deficit hawks" believe that the United States cannot create lasting economic prosperity and a secure future for its children with a such a staggering debt. On the other side, skeptical economists and politicians believe that the deficit is not a big enough problem to justify brushing aside policies, such as tax cuts or investment spending, to stimulate the economy.

Building and Sustaining Economic Growth. As mentioned earlier, running up a deficit can be necessary to invest in the economy or defend national security. What worries many economists about today's deficits is that they serve no such purpose. Today, the federal government spends and spends, but what is it investing in? Nothing, according to many economists and lawmakers. They believe that the United States, traditionally a nation of investment, has turned into a nation of consumption. They contend that the bulk of federal spending does little to create jobs, improve education, or rebuild the nation's infrastructure, yet does a lot to balloon America's debt.

Federal spending and borrowing consume not only the nation's tax dollars, but also much of its savings. When an individual, corporation, or the federal government saves, the money all goes

In his first address to a joint session of Congress in February 1993, President Bill Clinton called on Congress to reinvest in America by passing a $500 billion deficit reduction bill and a $30 billion job stimulus bill.

into what economists call the national savings pool. This pool is used for investments—major new purchases for individuals, new businesses, modernizing equipment, and worker training—that help create economic growth. However, this pool is being dried up by federal borrowing. In the early 1960s, the government absorbed only 1 percent of the nation's savings to finance its debt; today, it absorbs over 70 percent, leaving very little for economic investment. Deficit hawks believe that reducing or eliminating the deficit will free up more savings for investment.

Mortgaging the American Dream? Many deficit hawks warn that if the United States continues to accumulate deficits and to neglect investing in its economy, the consequences for the future generations of Americans will be catastrophic. They predict that by around 2010, the U.S. economy, burdened by a crippling national debt of over $7 billion, will grind to a halt. This "nightmare scenario" includes double-digit unemployment, impoverished retirees, a dry Social Security fund, and massive tax burdens. Many economists predict that workers will face astronomical taxes to pay for the services and benefits most Americans pay relatively little for now. They warn that unless the United States changes its fiscal course soon, the average standard of living in the early part of the twenty-first century will be significantly lower than at any time since the Great Depression of the 1930s. Said former U.S. Senator

Warren Rudman: "We are about to absolutely destroy ourselves."

A False Alarm? Despite these dire predictions, some financial experts believe that deficits, no matter how big, simply do not matter, or that their dangers have been wildly exaggerated. Economist Robert Heilbronner argued that "to worry about the present size of the debt is to magnify a mouse into a monster. It is simply a false alarm."

These critics point out that the national debt following World War II was then larger than the United States' gross domestic product (GDP). (GDP is the total national output of goods and services.) Yet the American economy survived and prospered. Today, the debt is 53 percent of GDP, which leads deficit skeptics to conclude that the situation is far from reaching emergency status. Deficit hawks respond that America invested in the expansion of its economy after World War II, whereas today the government's money is directed toward consumption.

Deficit skeptics believe that as long as economic growth outpaces the growth of the deficit, it makes little difference if the government runs up an annual deficit of $200-250 billion. To create economic growth, some economists call for either tax cuts or increased spending on public works programs that will increase employment. The new revenue from the expanded workforce could then be used to reduce the deficit. They believe that tax hikes and/or deep spending cuts to reduce the deficit will suffocate the recovery from the 1990-91 recession.

In addition, some economists point out that the national debt is money we owe to ourselves. Two-thirds of the $4.4 trillion debt is held by American individuals, banks, and financial institutions. The interest payments on the debt is money that stays, for the most part, in the U.S. economy. According to many skeptics, the debt's drag on the economy has therefore been exaggerated. Deficit hawks respond that 15 to 20 percent of the debt is owned by foreign investors, which means that every year more than $50 billion in interest payments leaves the country altogether.

Federal Spending: Where Does the Money Go?

Every year, the president and Congress create a federal budget to allocate money to thousands of programs. In FY94, the federal government will spend $1.5 trillion on social and national security programs President Clinton and Congress deem most deserving of federal dollars. Roughly $1.25 trillion will be collected in taxes to fund these programs, leaving a deficit of $250 billion.

Most economists and politicians agree that the government should balance the budget. Deficits therefore would be nonexistent and the growth of the national debt would be contained. The resulting surpluses could be used to pay off the debt. It sounds easy, but the government has too many spending commitments to balance the budget over the course of one or two fiscal years without crippling the economy and inflicting pain on needy Americans.

Ask many Americans why the government spends so much money, and a large number will tell you that their tax dollars are being squandered by ineffi-

U.S. Air Force

The defense buildup during the 1980s contributed to the increase in the budget deficit. In 1993, President Clinton's deficit reduction plan targeted the defense budget for deep cuts.

ciency and corruption, or, as many like to describe it, "waste, fraud, and abuse." During the 1992 presidential campaign, independent candidate Ross Perot said he could find $200 billion in "waste, fraud, and abuse" to cut from the budget. Few doubt that the government can be inefficient in its use of taxpayer dollars, but most experts agree that there is not enough waste to eliminate from the budget to make a significant reduction in the deficit. The vast portion of federal money goes into four main categories: defense, nondefense discretionary, entitlements, and interest on the national debt.

Defense

A large portion of the federal budget goes toward discretionary spending—items that must be approved and appropriated in congressional bills during the budget negotiation process with the president. The largest discretionary program is national defense. Providing for the nation's defense has always been a top priority of the federal government, accounting for somewhere between $200-250 billion annually in recent years. As a portion of the nation's economic output, defense spending reached its highest point in 1968 during the Vietnam War, when it consumed 10 percent of GDP. After that conflict ended, defense spending was scaled back to 6 percent of GDP by 1973. The "peace dividend"—the savings from defense cuts—was used to lower the $20 billion deficit. With defense expenditures down, spending on social programs increased throughout the remainder of the decade.

In 1980, after the Soviet Union invaded Afghanistan and continued its nuclear buildup, many Americans concluded that the national defense was inadequate. President Reagan called on Congress to increase defense spending from $160 billion in 1981 to more than $325 billion by 1986—the largest peacetime defense buildup in the nation's history. Congress, believing that the deficit was too big and that domestic programs were underfunded, slowed the growth of the defense budget during the last two years of Reagan's presidency.

After reaching $305 billion in 1991, defense spending began to fall. After the end of the Cold War and the breakup of the Soviet Union, scaling down defense became inevitable. Even the most diehard defenders of Reagan's military buildup conceded that it made little sense

to continue spending at high Cold War-era levels.

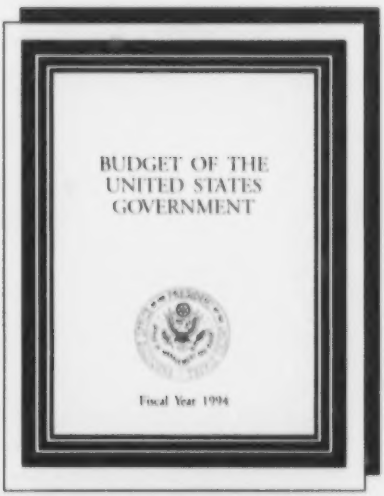
In 1986, defense represented 6.5 percent of America's GDP; by 1993, that figure had fallen to 4.8 percent. Under President Clinton's program, defense expenditures will decrease to 3.3 percent of GDP or $252 billion by 1996.

Nondefense Discretionary Spending

Nondefense discretionary programs include practically all federal spending except entitlements and interest on the debt: transportation, job training, education, environmental protection, crime prevention, space and technology, community development, and so on. During the budget process, Congress and the president make judgments about the usefulness of these programs and adjust the funding accordingly. In FY94, $246 billion will be spent on domestic discretionary programs.

During the Reagan administration, the growth of discretionary spending was cut to help pay for the increase in the defense budget. In 1979, these programs stood at 4.7 percent of GDP; by 1993, they had fallen to 3.7 percent—the lowest level of GDP since the early 1960s.

Most would agree that at least a portion of the money spent on discretionary programs is squandered. For example, critics often point to current projects like the NASA space station *Freedom* as expensive and of questionable value. Overall, however, individual discretionary programs are relatively inexpensive and cuts in a single program cannot provide significant deficit reduction. Said one member of Congress, "You can't get blood from a turnip." So, if the growth of these programs and the defense budget have been contained, why are America's annual budget deficits so enormous?



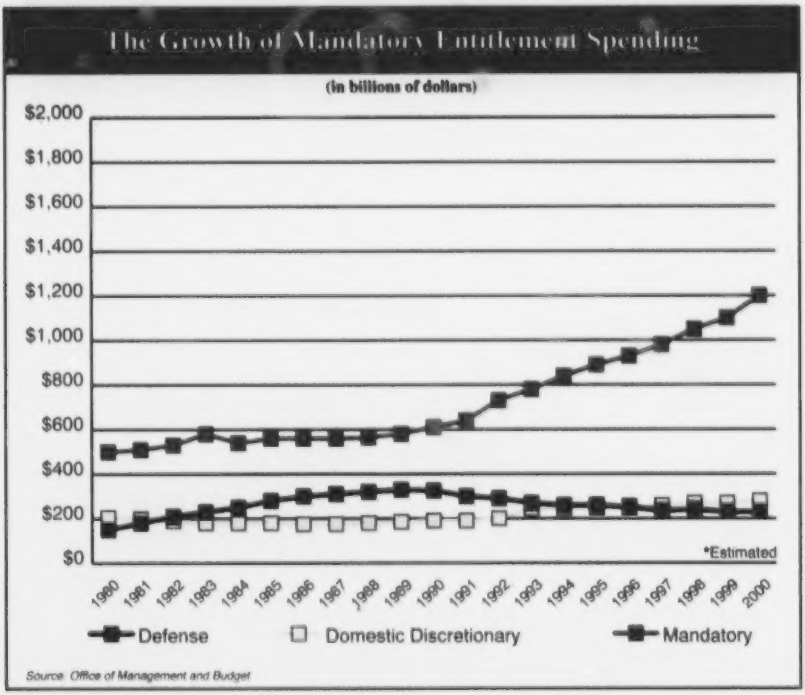
Every year, the president and Congress approve an annual budget for the federal government. The budget appropriates money to thousands of programs, including defense, education, Social Security, and Medicare. In fiscal year 1994, the government will spend $1.5 trillion.

Entitlements: The High Cost of Good Intentions

The consensus among economists, budget experts, and lawmakers is that the government's deficit problems are driven by the explosion in entitlement spending. Entitlements—benefits and subsidies to individuals and households—include payments through the Social Security, Medicare, Medicaid, veterans' benefits, farm aid, student loan, unemployment

compensation, and food stamp programs. These programs are called "entitlements" because any citizen who qualifies is automatically entitled to receive them. Entitlements are mandatory spending programs because, unlike discretionary programs, they are not subject to an annual review by Congress. Entitlements grow automatically every year and only a change in the laws mandating eligibility or the level of benefits can slow their expansion.

Over the course of FY94, the U.S. Treasury will mail out benefit checks totaling $800 billion or one-eighth of the American GDP—more than half the annual federal budget. By 2004, entitlements are expected to climb by 7 percent of GDP, while all other federal spending is expected to decline by about 1 percent. Some economists believe that the definition of entitlements should also include various tax breaks given to individuals and businesses. If such tax breaks and the cost of administering entitlement programs are figured in, the annual costs for entitlements amount to roughly $1 trillion. Most economists, budget experts, and lawmakers agree that entitlement reform has to be the centerpiece of any action plan to put the country's fiscal house in order. If these programs are allowed to grow at their present rates, many experts warn, future generations will be



faced with two choices: (1) shoulder a crippling tax burden to fund entitlements or (2) eliminate, or at least cut the benefits of these programs dramatically, forcing a great number of households into poverty.

The American Welfare State. As far back as 200 years ago the United States provided a certain amount of benefits to segments of the population. For example, in 1818, the United States disbursed money to veterans of the American Revolution. Soon after that, pensions for federal workers were established.

New entitlements like Social Security and unemployment compensation were created by President Franklin Roosevelt in the 1930s to help Americans survive the Great Depression. These programs provided millions of American men and women, especially older citizens, with a valuable financial safety net that kept them out of poverty.

In the 1960s, entitlements were expanded as part of President Lyndon Johnson's War on Poverty. Medicare and Medicaid, food stamps, Aid to Families with Dependent Children (commonly known as AFDC or welfare), benefits to disabled citizens, and increased retirement benefits for federal retirees were all implemented during this period.

The Big Three. Although the federal government subsidizes hundreds of entitlement programs, the lion's share of the cost can be attributed to three specific programs: Social Security, Medicare, and Medicaid, commonly referred to as the "Big Three."

Social Security was created by the Social Security Act of 1935 as part of a retirement program for Americans over age 65 funded by payroll taxes contributed by both workers and their employers. Social Security consists of two components: Old Age Survivors Insurance, which provides benefits for retired workers and their families, and Disability Insurance, which distributes income for disabled workers and their families. All Americans age 65 and over are automatically entitled to receive Social Security benefits, regardless of their annual income. In 1940, only 220,000 people were eligible for benefits; today, more than 38 million Americans receive them.

Social Security is often mistakenly referred to as an "insurance" program. The Social Security taxes Americans pay during their career do not go into an account with their name on it. People now in the workforce are paying for the benefits of those now in retirement. In effect, Social Security is a contract between generations.

Established in 1966 during the Johnson administration, Medicare is the federal health insurance program designed to cover the medical costs of people over the age of 65. With 33 million older Americans and 3 million people with disabilities enrolled, Medicare now costs $150 billion every year. It is the fastest-growing entitlement program, projected to hit an annual cost of $300 billion by 2000.

Medicaid, established at the same time as Medicare, serves as a provider of free or subsidized medical care for people with low incomes. Medicaid is funded jointly by federal and state governments and costs about $80 billion annually.

Welfare For the Middle Class? Virtually all segments of American society

receive benefits from the government—older Americans, low-income Americans, farmers, veterans, college students, government workers, children, military retirees, unemployed workers, people with disabilities, and so on. As mentioned earlier, the entitlement system was conceived and implemented over time as a way the federal government could take care of needy people. Most experts agree that without government assistance during the Great Depression, millions of men, women, and children, including older citizens, could not have survived. Since the mid-1960s, Medicare and Medicaid have guaranteed health care coverage for millions of Americans. Even today, entitlements continue to keep millions of people from sinking below the poverty line.

However, while low-income households still depend on entitlements, today more than half of the federal government's entitlement dollar goes to households with incomes above the national average—$30,000. In 1993, $150 billion of entitlement benefits went to households with incomes over $50,000. This

Close Up Foundation/Hillary Schwab

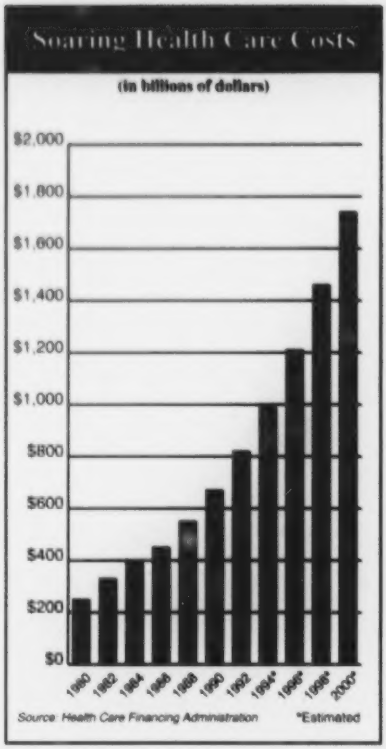
USDA Photo/David F. Warren

Entitlement programs were originally designed to be a safety net to keep low-income and older Americans out of poverty. Today, however, critics charge that the majority of the benefits go to middle-class Americans. Affluent older Americans receive full Social Security payments and farmers receive subsidies from the government regardless of their annual income.

occurs because nearly three-quarters of entitlements are not means tested; in other words, they are handed out without any consideration given to financial need. Medicaid and AFDC are means tested—recipients must be under a certain income level to qualify. More than 70 percent of benefits are not means tested (Social Security, Medicare, pensions) or are partially means tested (veterans benefits, student loans). Programs such as AFDC have been singled out as scapegoats for the budget deficit, but welfare benefits are in fact only a small fraction of entitlement spending, let alone overall federal spending. Today, only one out of eight federal dollars goes toward lifting people out of poverty.

Most economists and budget experts agree that the skyrocketing costs of entitlements—and therefore the increasing budget deficit—are because of non-means-tested programs that benefit primarily the middle class of America. A system that was designed to provide a social safety net for needy Americans has now become, in the words of businessman, former secretary of commerce, and well-known deficit hawk Peter G. Peterson, a "well-padded hammock" for the middle class and affluent.

The Graying of America. The fact that entitlements are generous and for the most part not means tested are two of four major reasons why costs of these programs are soaring. Another factor is the changing demographics of the population—the "graying of America." Today, there are about 35 million men and women living in the United States age 65 and over who are entitled to all benefits promised by Social Security and Medicare. In 2030, when the "baby boom" generation (those born between 1946 and 1964) is retired, 70 million Americans will be eligible for Social Security and Medicare.



Like previous generations, working Americans in the early part of the twenty-first century will have to pick up the tab for retired men and women. However, a potential disaster lies in the changing demographics of the United States. Around 2020, the number of people entering the workforce is expected to grow at only a fraction of the pace at which the population is retiring. This development will

come about because of the retirement of the large "baby boom" generation, lower birth rates, and increased lifespans. One of the wonders of medical technology is that Americans are living longer. The downside is that health care costs are exploding as millions more older citizens need expensive new treatments and equipment to survive (see *Budget-Busting Health Care Costs*, p. 20). With a significantly larger older population, spending on Social Security and Medicare in their present forms will spiral out of control.

The result will be an unprecedented tax burden on American workers. Some economists predict that by 2030—assuming that the entitlement system is not reformed—more than 50 percent of workers' paychecks will be withheld by the federal government to pay for Social Security and Medicare alone. When the cost of all entitlements is figured into the equation, generations born after 1990 will be forced to pay three tax dollars for every four dollars they earn to fund these programs. Such a crushing burden, most economists agree, would practically eliminate economic growth and job creation, and sink the the standard of living for most Americans. In short, the American dream will have vanished.

Interest: Money for Nothing

There is one item in the federal budget that absorbs more than $250 billion every year, but buys absolutely nothing: the interest on the national debt. Like an individual, when the government borrows money to pay off deficits, it has to pay interest, the cost of borrowing that money. If the original debt is paid off quickly, only a small amount of interest has to be paid. But because the federal government has added layers and layers of annual deficits to its overall debt rather than paying it off, the interest on the debt has soared.

In 1960, interest on the national debt comprised only 7 percent of federal spending; in 1993, it consumed 14 percent—almost $290 billion. The United States government spends more on interest on the debt than it does on education, job training, and the war on drugs combined. Eventually, if current borrowing trends continue, only entitlements will match interest payments in the federal budget.

The Pain and Gain of Deficit Reduction

When confronting domestic challenges like crime, the economy, poverty, and inadequate health care coverage, lawmakers in Washington spend weeks, months, even years, looking for policies that they think will solve the problems. What many Americans find frustrating about debts and deficits is that we know what to do to reduce them. Most experts agree: The solutions are there, and there is no shortage of messengers. Ross Perot, the Concord Coalition, deficit hawks in Congress, and the Committee for a Responsible Federal Budget have detailed plans to attack the country's fiscal mess. What many think is missing is a commitment on the part of the American people and their representatives in Congress to face up to the problem. Why? Because the two basic approaches to deficit reduc-

As part of President Clinton's deficit reduction package, Congress passed a 4.3 cents per gallon increase in the gasoline tax in 1993, projected to raise about $24 billion in new revenues over five years. The average American consumer will pay about thirty additional dollars every year for gas.

tion—higher taxes and lower spending—require sacrifice from the general public.

Raising Taxes

Justice Oliver Wendell Holmes once said, "Taxes are what we pay for a civilized society." Taxes pay for all the expensive government services and benefits that Americans have come to expect. However, as the price of these programs increases, voters generally protest when higher taxes are proposed to pay for the programs. Nevertheless, many economists and members of Congress believe it is unrealistic for the American people to expect their taxes to stay constant when the government is running up annual deficits of around $250 billion.

Many experts argue that higher taxes are a fair way of spreading the burden of deficit reduction. They contend that relying solely on spending cuts to reduce the deficit will hurt the people who depend on government assistance. The most commonly proposed tax increases include a higher individual tax rate, higher gasoline taxes, "sin" taxes on alcohol and tobacco, and limitations on home mortgage interest deductions. Critics of new taxes counter that the economic recovery is too weak to survive an onslaught of tax increases that will drain more money from the public that would have otherwise been used for spending and investment.

Breaking the Spending Habit

Even those Americans who favor new and higher taxes are quick to add that meaningful deficit reduction is impossible unless federal spending is scaled back. Deficit hawks point out that deficits—personal and federal—are accumulated not because taxes or earnings are too low, but because spending is too high. Low taxes can contribute to an increase in the deficit, as they did during the 1980s, but deficit hawks argue that what really drives the growth of the deficit is federal spending.

As discussed earlier, defense and domestic discretionary budgets have been examined, evaluated, and adjusted. Defense spending is slowly but steadily being reduced and expenditures on edu-

Budget-Busting Health Care Costs

As economists, business leaders, and lawmakers exchange ideas on how to control entitlement spending, many agree that medical entitlements—Medicare and Medicaid—must be the focus of their efforts. Since 1965, federal health benefits have risen from $1.2 billion of the annual federal budget to $250 billion in 1993. If current trends continue, the growth of these programs will add another $450 billion to the yearly budget by 2003 and will eventually surpass Social Security as the federal government's number one spending commitment. However, while most experts say that containing the growth of these medical programs is essential, their costs are just a symptom of a much larger and disturbing national crisis: the soaring costs of health care.

In 1993, Americans spent almost $940 billion on health care—14 percent of the gross domestic product (GDP). The Congressional Budget Office projects that by 2000 the annual bill will be $1.7 trillion—almost 20 percent of GDP. The federal government pays one-third of the nation's health care bill mostly through Medicare and Medicaid. The United States spends twice as much per person for health care than do both Germany and Japan and 40 percent more than Canada does. President Bill Clinton conceded that his deficit reduction plan passed by Congress in August 1993 will have zero long-term effect unless health care costs are controlled.

In addition to the expansion of Medicare and Medicaid, a number of factors contribute to the skyrocketing health care costs of the nation.

cation, transportation, and the environment have never been a major source of deficit growth. Many Americans believe that further cuts in domestic programs, especially education, will be counterproductive. Jeff Faux, president of the Economic Policy Institute, said, "You don't help your children by denying them the money to go to school today so they can pay less taxes in ten years."

The stark reality of deficit reduction is that virtually all entitlements—most notably Social Security and Medicare—would have to be reformed to bring

As the population grows older, more and more Americans will need medical care. Consequently, the demand for hospital care and expensive new medical technologies and treatments is growing. Finally, the health care industry spends billions of dollars on what many say are unnecessary medical procedures, equipment, and paperwork. President Clinton and Congress have taken steps to limit reimbursements to health care providers who treat Medicare and Medicaid patients, but many say that much more needs to be done if costs are to be controlled.

President Clinton's proposal to reform the health care system of the United States has two major goals: (1) extend health coverage to all Americans and (2) control rising costs. Many experts worry that the effort to make health care available to everyone will lead to the creation of a new and monstrously expensive entitlement program. Many fear that implementing such a system without effectively controlling health care costs will send the budget deficit and the national debt rocketing to heights previously unimaginable.

spending under control. In his book *Facing Up*, Peter Peterson argues, "The budget arithmetic is inescapable: We just can't get the spending cuts we need from anywhere but entitlements. As big as it is, even defense spending isn't big enough. We could shut down the Pentagon tomorrow and still not balance the budget."

Because practically every American qualifies for entitlements at some point in his or her lifetime, tampering with the benefits can be risky for elected officials. For example, Social Security, because of its universal popularity and the high voter turnout among older Americans, has long been considered "untouchable" by most politicians.

Opponents of cutting entitlements argue that reducing benefits will inflict too much pain on less-affluent recipients and prevent them from maintaining a decent standard of living. On the other hand, supporters of entitlement reform insist that if these programs are permitted to grow unabated, workers in the twenty-first century will have to shoulder a massive tax burden to pay for them. The alternative will be to drastically reduce, or even eliminate, the programs.

The Clinton Plan: How Fair and How Effective?

In February 1993, President Clinton unveiled his greatly anticipated proposal to reshape the U.S. economy. He talked of reinvesting in America's future on two major fronts: (1) a $30 billion spending stimulus to provide a short-term shot in the arm to the economy and (2) a plan to reduce the budget deficit by $500 billion over four years.

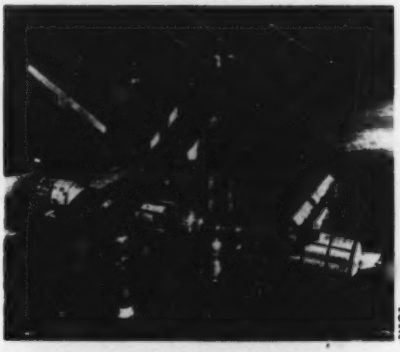
Many members of Congress and economists thought that the president and Congress should first pass a deficit reduction bill before an expensive spending or "stimulus" program was considered. Republicans in the Senate

killed the stimulus package with a filibuster soon after it was introduced, leaving deficit reduction as the centerpiece of the Clinton economic plan.

The budget plan the president submitted to Congress called for a rough balance of tax increases—$267 billion—and spending cuts—$247 billion—to meet the goal of over $500 billion in deficit reductions over four years. The plan's more ambitious provisions, such as a broad-based energy tax, were scuttled as the package made its way through Congress. On August 8, 1993, after months of debating and negotiating, the House and Senate narrowly passed a restructured Clinton plan with a deficit reduction target of $496 billion.

Taxes vs. Spending. Most of the president's tax increases are aimed at wealthy Americans. The top income tax bracket was raised from 31 percent to 36 percent—projected to raise $115 billion over five years. In addition, upper-income older Americans have to pay higher taxes on their Social Security benefits. Overall, 70 cents of every dollar raised by new taxes will be paid by households making more than $200,000. Most Americans will be affected by the 4.3 cents increase in the gasoline tax, which is projected to raise $24 billion over four years.

Republicans called the plan a huge "soak the rich" scheme that will kill jobs and economic growth as soon as businesses and consumers start feeling the pinch in mid-1994. Others maintain that the reduction in the deficit will keep interest rates low. According to President Clinton's supporters, low interest rates will encourage consumers to borrow money for large purchases and investments, thereby smothering the negative impact of the new taxes.



NASA

Many members of Congress believe some projects of the National Aeronautical and Space Administration (NASA), including the space station* Freedom, *are wasteful and of questionable scientific value. They argue that the United States, with a budget deficit of $250 billion, can no longer afford these expensive programs.

The administration's spending cuts come mostly from discretionary programs, namely defense. By 1998, the Pentagon's budget will be slashed by $127 billion—almost twice as much as President Bush was planning to cut. A modest $55 billion entitlement reduction comes in the form of limiting Medicare reimbursements to hospitals and doctors, as opposed to limiting benefits to recipients. In addition, Medicaid was cut by $7 billion by tightening rules for eligibility and limiting hospital reimbursements.

Critics contend that the spending reductions rely too much—some say dangerously—on the nation's defense. They argue that entitlements should have been the main target of cuts. These critics note that the budget's reductions in Medicare

and Medicaid only slightly reduce the growth of these programs, not the actual dollar level, and say that Social Security is not even addressed.

Supporters of the budget respond that there are more spending cuts in the president's plan than in any budget put forth by previous administrations. President Clinton also says that health care reform will rein in medical costs, a force behind the soaring costs of many entitlements.

Medicine Worth Taking? What effect will the Clinton plan have on the budget deficit and the national debt? In March 1993, the Congressional Budget Office (CBO) projected that, barring passage of any deficit reduction legislation, the deficit would reach $456 billion by 2000. However, as a result of the enacted Clinton program, the CBO predicts that the deficit in 2000 will be around $250 billion—assuming passage of health care reform that will control skyrocketing medical costs. Regardless, the government will continue to run deficits, meaning the national debt will grow, probably by an additional $1 trillion by 1996.

Drawing the Line. Fiscal conservatives in Congress want the president to go much further in cutting the deficit. In October 1993, President Clinton unveiled a package of $11 billion in additional spending cuts that would come mostly from the administration's plans to "reinvent" or streamline the federal government bureaucracy. In October 1993, Congressmen Tim Penny (D-Minn.) and John Kasich (R-Ohio) introduced a package of spending cuts totaling more than $100 billion, including an additional $37 billion to be cut from Medicare. The House of Representatives narrowly rejected the bill. In the Senate, Senators Robert Kerrey (D-Nebr.) and Hank Brown (R-Colo.) introduced a similar package of spending cuts amounting to $110 billion. The Clinton administration supports many of the spending reductions detailed in these plans, but has indicated that the savings should help pay for the administration's health care and investment programs, not for deficit reduction. The resistance on the part of the president and most members of Congress to further slash the deficit leads many experts to conclude that Washington continues to lack the necessary will to control government spending. Many political observers conclude that President Clinton believes his administration has cut the deficit enough. These experts predict that in 1994 the president will turn his attention to investing money to improve health care, education, and job training.

A Call to Arms: Ross Perot and the Concord Coalition

Many former politicians, business leaders, and grassroots political organizations believe that the Clinton deficit reduction plan does not go far enough and have offered their own blueprints on how to seriously reduce the deficit or balance the budget. Because these Americans, unlike the president and Congress, are not accountable to voters, their proposals for deficit reduction are generally more sweeping and politically explosive. In addition to offering a list of budget choices, these plans are designed to educate that large segment of the public that is

During the 1992 presidential campaign, independent Ross Perot appeared in television "infomercials" to warn the nation of the dangers of the national debt. Armed with charts and graphs, Perot argued that the debt was slowly destroying the economy and the American dream for future generations.

skeptical of the dangers of the deficit and national debt. Advocates of strong deficit reduction want to persuade the public that the cuts in government benefits and higher taxes needed today are mild compared to the sacrifices that will be asked of American workers and retirees in the twenty-first century. In particular, proposals by Ross Perot and the Concord Coalition appeal to Americans' sense of "generational morality" to win support for a balanced budget.

Ross's Remedy. Billionaire businessman Ross Perot ran an independent campaign for president in 1992 on the issue of the national debt. Perhaps more than any other public figure, Perot, who received 19 percent of the vote, deserves much of the credit for pushing the issue to the forefront of debate. In the introduction to his book, *Not For Sale At Any Price*, Perot warned: "Unless we take action now [about the deficit], our nation may confront a situation similar to the Great Depression—and maybe even worse." The Texas businessman says averting this catastrophe requires "fair, shared sacrifice" from all Americans.

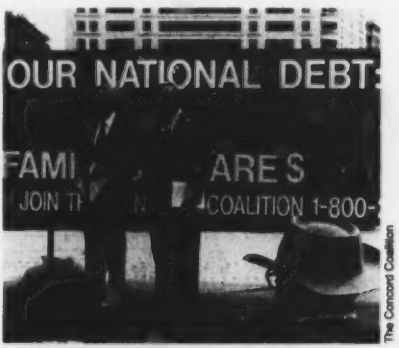
Perot declared that his own deficit reduction proposal would eliminate the entire deficit by 1998. Under his plan, every spending program—including entitlements—would take a hit. The growth of Social Security benefits would be slowed by about one-third, and affluent recipients would pay higher taxes on

these benefits. Agricultural subsidies to farmers and cost-of-living increases for government pensions would also be cut. Perot called for tax increases, including a 50 cent per gallon gasoline tax to be phased in over five years. This tax would raise $157 billion in new revenues over that time period.

Few would dispute that the Perot plan is a more severe prescription for deficit reduction than anything President Clinton or any member of Congress has put forth. Critics warn, however, that such shock treatment would suffocate businesses and consumer spending and force the economy to its knees. Some who support the goal of the Perot plan say it does not specify how he would cut Medicare or discretionary programs. Supporters of Perot respond that the details can be worked out later; what is important is to first commit to these harsh but effective measures.

The Concord Coalition: Rewriting the Social Contract. Similar praise and criticism also surround the deficit-cutting plan of the Concord Coalition. The Concord Coalition was created in 1993 by businessman Peter G. Peterson and former U.S. Senators Warren Rudman and Paul Tsongas to provide a bipartisan forum for addressing the nation's debt. Included in the Concord Coalition Zero Deficit Plan to balance the budget by 2000 are cuts in wasteful programs and agricultural subsidies, limits on the home mortgage interest deduction, the cancellation of the space station, tax increases on wealthy Americans, and higher taxes on gasoline. Overall, the plan calls for $2 in spending cuts for every $1 in new taxes.

Many of these proposals have been offered before by other deficit cutters. What sets this plan apart from the others is its detailed strategy to reform non-means-tested entitlements. The Concord plan would place an "affluence test" on Social Security, Medicare, farm subsidies, and some veterans benefits for families with an annual income of at least $40,000. Only the entitlement benefits that cause household income to exceed $40,000 would be reduced. The wealthier the household, the more entitlements it would have to give up. For example, a family with annual income of $50,000 would have to give up 10 percent of the entitlements that would cause its income to exceed the $40,000 level. A family with an income of $160,000 would lose 85 percent of their entitlement benefits. The reduction would stop at 85 percent, so even the wealthiest Americans would receive some return on earlier payroll



In October 1993, former U.S. Senators Paul Tsongas (left) and Warren Rudman, cofounders of the Concord Coalition, unveiled their plan to eliminate the budget deficit by 2000. The proposal's most controversial feature is an affluence test on Social Security and Medicare recipients.

taxes. Proponents say this means-testing plan would, if implemented in 1995, reduce entitlement payments by $68 billion in 2000—or one-quarter of the deficit reduction needed to balance the budget by that year.

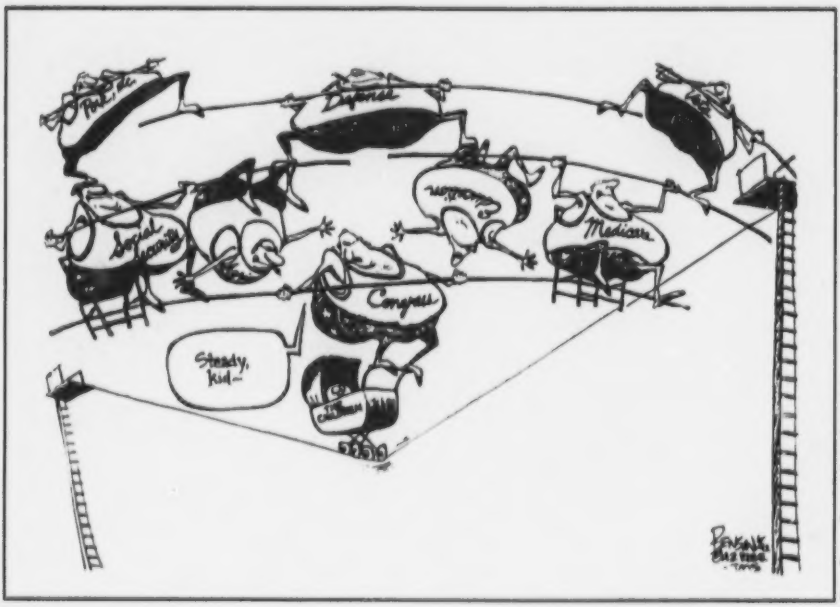
Critics have denounced the Concord plan as an all-out attack on the nation's older population. They ask why "affluent" senior citizens should in effect give back to the government the benefits they paid for with Social Security taxes over the course of their working careers, arguing that they have earned their benefits. Proponents of entitlement reform reply that most retirees receive up to four times as many benefits as they paid in Social Security taxes. Furthermore, they contend that the plan is protecting future retirees in the twenty-first century. Deficit hawks argue that without reforms soon, there will be few benefits for older Americans twenty or thirty years from now.

A Balanced Budget Amendment. Many experts and lawmakers believe that the spending cuts and reforms described in the Perot and Concord Coalition plans can be implemented if Congress is required by constitutional amendment to pass a balanced budget every year. Supporters of a balanced budget amendment believe it will obligate the president and Congress to constrain federal expenditures by making it illegal for Congress to pass a deficit budget. Such an amendment would force the president to submit a balanced budget and Congress to approve a balanced budget. Proponents argue that lawmakers in Washington clearly do not have the political will to make tough spending choices, and that an amendment to the Constitution will provide valuable political cover for slashing the budget, namely popular entitlement programs. If bound by the Constitution, the president and members of Congress can make the tough choices and restore fiscal order to the government without jeopardizing their chances for reelection.

Opponents contend that a balanced budget amendment would handcuff the government when emergency deficit spending is required for national emergencies, such as natural disasters, recessions, or wars. In addition, critics believe that the federal budget process is so riddled with loopholes and escape hatches that members of Congress will always find ways to fund their favorite projects, thus making a mockery of the Constitution. Opponents also argue that the popular support across America for the amendment is because Americans still have a misconception that federal spending is all pork and corruption; they are not aware that popular programs will be slashed and taxes will be raised if the amendment becomes law. Supporters of the amendment counter by saying that the American people will accept such sacrifices if Congress—supported by a constitutional amendment—leads the way.

Is America Ready for "Fair, Shared Sacrifice"?

Deficit reduction advocacy groups like the Concord Coalition and the Committee for a Responsible Federal Budget exist not only to offer specific solutions to eliminate the deficit, but also to educate the general public. Political observers believe that the size of the nation's debt has entered the national consciousness



Steve Benson/Tribune Media Services

but so far has failed to convince the public that tough choices have to be made.

Judging by various public opinion surveys and election returns, the attitudes of American men and women toward the national debt and budget deficit fall into three groups. The first group does not believe that the debt and deficit present any real danger to the nation's short-term or long-term economic health and therefore should not be the focus of the government's efforts to rebuild the economy. The second group believes that America's debt is a serious problem but does not want their government benefits to be touched, nor do they want taxes to be raised. The third group believes the situation is approaching or has reached a crisis stage and is willing to accept cuts in benefits and fair tax increases to bring the debt and deficit down. This last group, although its numbers have grown over the past two years, still appears to be the minority. Most experts believe that as long as people in the first two groups constitute the majority, the president and Congress will not muster the courage to ask Americans to make sacrifices to slash the deficit.

"Most congressmen and senators know the deficit is a serious national problem," said one member of Congress, "but the choice is between political suicide or economic suicide. It's not a tasty choice."

The Risky Politics of Deficit Reduction

Although there has been progress in educating the public about the dangers of the deficit, clearly much more needs to be

done to unify citizens around specific proposals. Speaking broadly of the urgent need to address the problem can be a political plus; laying out a detailed list of spending cuts and tax increases as a way to address it can be a political negative.

"You have a much higher level of buzz on the deficit than you've ever had," said a political consultant. "The deficit is now a top issue, but any time anyone's tried to say something of substance, they've gotten into difficulty."

Most experts believe that currently there is no political price to pay for failing to reduce the deficit. In fact, many political observers think that members of Congress who voted for President Clinton's deficit reduction package are more vulnerable when they face reelection in 1994 than those who voted against it. Others maintain that progress has been made in heightening public awareness of the deficit and point to Ross Perot's 1992 presidential campaign. His 19 percent share of the popular vote made his the most successful independent candidacy in more than eighty years.

Short-Term vs. Long-Term. A major reason why many Americans are not concerned about the country's debt is the slow economic recovery from the 1990-91 recession. Although the recession ended officially in March 1991, economic growth since then has been slow. Unemployment has remained high—around 6.5 percent. Generally, Americans understand the need to address the debt, but do not want to do so right now. They are more worried now about how to get the economy moving in 1994 than about what kind of country they will be leaving their children in twenty to thirty

Lead or Leave: Attack of the Twenty-Somethings

A common criticism many social commentators and politicians have leveled against Americans in their late teens or twenties is that they are apathetic about important issues and national politics. Some call them "Generation X" because they seem to lack a collective identity. Jon Cowan and Rob Nelson and their antideficit grassroots organization called Lead or Leave would like to change all that.

These two "twenty-somethings" believe the national debt is their generation's Vietnam—a volatile, politically charged issue around which millions of young men and women can unite to bring about social change. Lead or Leavers believe the federal government is accumulating an enormous debt that will be placed on the shoulders of their generation.

"It's like somebody is running up an enormous bill on your credit card," says Cowan, "and you won't get to buy anything else."

Lead or Leave began in 1992 as a lobbying effort to have presidential and congressional candidates pledge that if they did not cut the budget deficit in half by 1996, they would not run for reelection. The pledge was signed by Democratic candidate Paul Tsongas, independent Ross Perot, and more than seventy congressional candidates (Bill

Lead or Leave founders Rob Nelson (left) and Jon Cowan address a student rally on the campus of Virginia Tech University in Blacksburg, Virginia.

Clinton refused, calling the pledge a "gimmick").

Although only seventeen of the signatories got elected, Lead or Leave has garnered a significant amount of media attention. Cowan and Nelson appeared on the cover of a February 1993 issue of *U.S. News & World Report* and were interviewed as part of a "60 Minutes" story on Social Security. Lead or Leavers single out entitlement programs for older Americans, like Social Security, as the chief culprit behind the nation's deficits woes. The Washington, D.C., headquarters of the American Association of Retired Persons (AARP) is a favorite site of Lead or Leave rallies. According to Cowan, America's retirees are "selling out their children's and grandchildren's future."

However, it is statements like this that has won Lead or Leave many critics. Although many believe the Lead or Leave cause is admirable, they also think that the group may be inciting generational warfare at a time when the United States already suffers enough from class and racial divisions. But many young Americans contend it is organizations such as AARP that are waging generational war by lobbying against virtually every proposal to reduce benefits to senior citizens at the expense of programs that benefit children.

Despite its critics, Lead or Leave says it is determined to make an impact on the 1994 elections and beyond. If nothing else, the group has helped give "Generation X" a loud voice in the debate over the national debt and their nation's future.

years. As one political analyst put it, the top three priorities for Americans these days are "jobs, jobs, jobs."

According to opinion polls, the other top priorities are health care and crime, both of which may require considerable amounts of new federal spending. Overall, in the battle between the short-term and long-term good of the country, the short-term appears to have the edge.

Everybody But Me. In their call for cuts in government spending, most Americans are talking about what they see as wasteful spending, not cutting funds that support their favorite programs, like Social Security and Medicare. Congressman Robert Matsui (D-Calif.) said: "The public knows the deficit is a problem, but they don't think they're the problem."

When the Clinton administration was piecing together its deficit reduction plan, Director of the Office of Management and Budget Leon Panetta said "everything" was on the table. But not for long. Details of possible proposals began to leak out—a freeze on the cost-of-living adjustments (COLA) on Social Security and Medicare, a broad-based energy tax, reduced agricultural subsidies, and deep cuts in defense. Long before the plan was formally introduced, many controversial proposals were left out because public and congressional reaction was too negative. Wealthy Americans opposed higher income taxes, older Americans protested cuts in their entitlements, defense contractors warned of the consequences of military reductions, representatives from oil-and gas-producing states refused to support any plan with a large energy tax, members from farm states spoke out against cuts in agricultural subsidies, and so on. According to a *USA Today*/CNN/Gallup poll, 70 percent of all Americans opposed a COLA freeze on Social Security and higher taxes on Social Security benefits and 60 percent opposed new taxes on energy, including a small gasoline tax. Most political observers and budget experts believe that what was once an ambitious program to seriously address the deficit was weakened by pressure from interest groups and members of Congress who were protecting their constituents. The end result was a budget plan that called on the wealthiest Americans to sacrifice with higher income taxes, but asked little—a modest gasoline tax increase—from the middle class.

Americans Today vs. Americans in the Twenty-First Century

Although many economists criticize the budget plan passed by Congress in 1993 as too tentative, they consider it an important first step nonetheless—one that could lead to more ambitious deficit-cutting measures in the future.

Other Americans are not so sure. Deficit hawks believe that the intense lobbying waged by special interest groups against entitlement reform indicates that it will be difficult to unite the country around a call for sacrifice. Many observers worry that battle lines have been drawn in the scramble for increasingly scarce federal dollars. Older Americans want full Social Security and Medicare benefits, young people want these programs cut to free up money for investing in the future, and small businesses and farmers want tax breaks and

subsidies. Michael Boskin, former chairman of the Council of Economic Advisers, recently warned that hostility between segments of the population—particularly between older and younger Americans—will worsen: "A confrontation between workers and retirees will arise that will create the greatest polarization along economic lines in our society since the Civil War." Paul Tsongas and Warren Rudman agree. In the foreword to the Concord Coalition's report, they envision a future in which "working people will refuse to submit to the crushing burden forced upon them by their elders. There will be a generational conflict pitting American against American, child against parent, in a way that our nation has not seen before."

Although some politicians dismiss such talk as hysteria, there are already signs that young Americans are frightened over their future. The segment of the public most concerned about the debt is the 18- to 35-year-old age group. They have read reports and statistics that suggest that the American dream is slowly disappearing because their government's priority is subsidizing the incomes of middle-class and older Americans instead of investing money in the future.

Experts say a divisive battle can still be averted if the right messenger—Democrat, Republican, or independent—can persuade the public that: (1) the economy will never restore its vitality with a $4 trillion debt and (2) all Americans, except for those with very low incomes, must make a moderate sacrifice to alleviate the burden. Skeptics believe that deficit hawks are asking too much from citizens worried about keeping their jobs and having access to health care. But to the Ross Perots, Paul Tsongases, and Warren Rudmans of the country, the choice for Americans is clear: Sacrifice a little today so that your children will not have to sacrifice a lot tomorrow.

For Further Reading

The following books will provide information for further research on some of the topics covered in *America's Growing Debt.*

Calleo, David P. *The Bankrupting of America: How the Federal Budget is Impoverishing the Nation.* New York: Avon Books, 1992.

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1994. $24.95.

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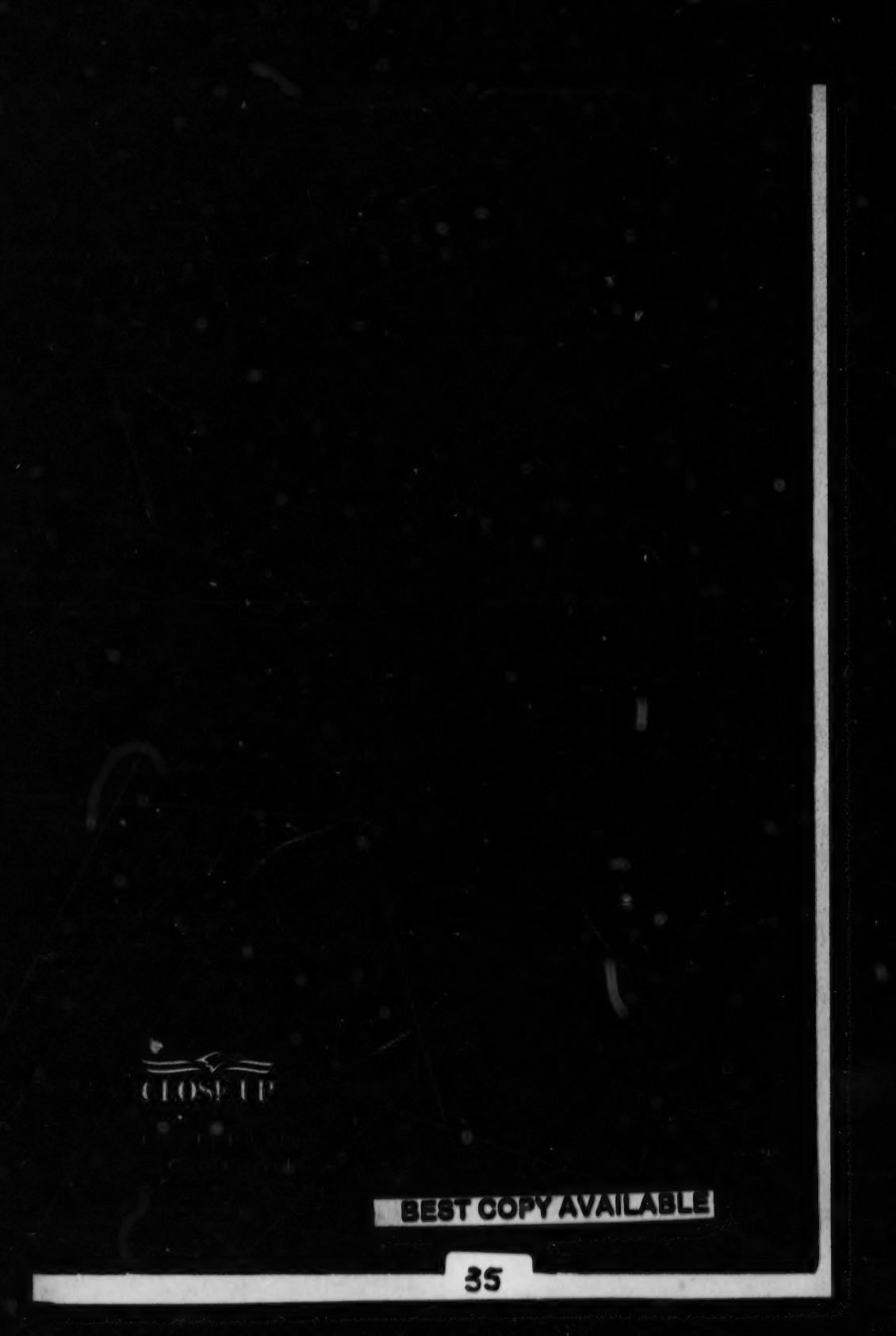

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America's Growing Debt
Teacher's Guide

Developed by
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Close Up Foundation

The Close Up Foundation is a nonprofit, nonpartisan organization that encourages responsible participation in the democratic process through educational programs and publications in government and citizenship. Since its founding in 1971, Close Up has been committed to developing new and better ways for young people, teachers, and a widening circle of citizens of all ages to gain a practical understanding of how public policy affects their lives and how individual and collective efforts affect public policy. Close Up Publishing develops books, teacher's guides, and other materials designed to encourage critical thinking and inspire interest in current issues, government, foreign affairs, and economics.

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To the Teacher

America's Growing Debt is an introduction to the complex issues of the national debt and the budget deficit. The book defines terms and concepts central to the issues, debates whether the debt and deficit are crises, explores the federal government's budget, and examines recent deficit reduction proposals. Many lawmakers and economists believe that the nation's fiscal disorder is the United States' most important domestic issue because the debt affects the government's ability to address virtually every domestic concern, from poverty to health care to education.

The *America's Growing Debt Teacher's Guide* offers classroom activities, handouts, and test materials around which to create a comprehensive lesson plan. Used in conjunction with *America's Growing Debt*, this teacher's resource will help students gain a solid understanding of why the United States has such huge budget deficits and how they may be reduced in the future.

Objectives

This guide should help your students to:

1. Define concepts relating to the budget deficit and national debt.
2. Understand the impact that various interest groups can have on plans to reduce the budget deficit.
3. Debate pros and cons of deficit reduction proposals.
4. Discuss how the deficit affects the economy and the students' future.

Structure of the Lesson

The *America's Growing Debt Teacher's Guide* contains the following components:

Key Terms. The key terms will help students understand the concepts presented in *America's Growing Debt.*

Motivator. The motivator is an activity designed to capture student interest, introduce the class to *America's Growing Debt,* and encourage the active participation of all your students.

Student Activities. The guide contains three student activities that require class members to exercise their critical thinking skills and conduct independent research. The activities also emphasize important information from *America's Growing Debt.*

Student Handouts. The student handouts that accompany the activities can be reproduced for classroom use.

Test Materials. This section contains a variety of test questions that you can use to evaluate students' knowledge after completion of the lesson or that students can use as a self-check tool. Test materials include true/false, multiple choice, fill-in-the-blank, and essay questions taken from information presented in *America's Growing Debt.*

Answer Key. The last section includes answers to all test questions.

Key Terms

affluence test
Balanced Budget Amendment
budget deficit
Concord Coalition
cost-of-living adjustment
deficit hawks
deficit spending
discretionary spending
entitlements
federal budget
fiscal year
generational morality
gross domestic product (GDP)
interest
investment
mandatory spending
means testing
Medicaid
Medicare
national debt
national savings pool
recession
Social Security
stimulus
subsidies
supply-side economics
welfare

Motivator

Before beginning this lesson, conduct a brainstorming session. Write "national debt" on the board and have students call out words and ideas that come to mind when they think of "national debt." List them as they are mentioned. Are their responses generally positive or negative? How many students know what the national debt is? Have students examine the graphs on page 9 of *America's Growing Debt* illustrating the size of the national debt and the budget deficit. Find out if students know what the federal government spends its money on. List some of the items as they mention them. Then, distribute **Student Handout 1—Ranking the Budget's Programs** and give students a few minutes to fill out the chart. After they have completed the exercise, discuss with them why they believe certain budget items are more important than others.

Student Activities

1. Divide your class into four groups of equal size and assign each group to represent one of the following:

- o defense contractors
- o members of the American Association of Retired Persons (AARP)
- o supply-side economists
- o the President's Council of Economic Advisers

The President's Council of Economic Advisers is looking for ways to reduce the federal budget deficit. It is considering the following proposals:

(1) raising tax revenues on wealthy Americans and eliminating tax breaks for corporations;
(2) capping all Social Security and Medicare benefits;
(3) making deeper cuts in the defense budget.

The groups representing the defense contractors, supply-side economists, and AARP representatives should prepare arguments stating their positions for or against these proposals and pick one representative to argue their group's case in front of the Council of Economic Advisers. Each group should try to decide how these deficit reduction proposals would affect its interests. Meanwhile, the group representing the Council of Economic Advisers should be prepared to ask each group questions after its spokesperson has presented his or her arguments. After groups have testified, poll the entire class on which plan they believe would best bring down the deficit.

2. Have students look carefully at the Steve Benson cartoon on page 27 of *America's Growing Debt.* Ask them what they think the eight tightrope walkers represent. What does the baby represent? What is the cartoonist saying about government spending and its impact on future generations? Judging by the cartoon, what can students guess will happen to "the children" if the weight of government spending continues to increase? What appears to be the attitude of Congress in the cartoon? Do students agree with Benson's point of view? Is the situation actually that severe? Which of the spending programs depicted in the cartoon would students eliminate, if any, to lighten the burden on the children?

After the discussion, ask all students to draw their own cartoons depicting the problem of the deficit. Display cartoons on a bulletin board.

3. Divide students into three groups of equal size and organize separate debates on the following position statements:

- o A balanced budget amendment will eliminate the budget deficit.
- o Entitlement programs must be capped to reduce the deficit.
- o Slashing the deficit now would ruin the economy.

Allow groups time to research their topics. Students should use *America's Growing Debt* and outside sources to prepare. After each group has done its research, divide its members into a pro side and con side for each debate. Give each side equal time to present its arguments and rebuttals. You should select a timekeeper and moderator for each debate (or do it yourself) to keep the proceedings orderly and moving. Allow five minutes at the end of each debate for questions from nonparticipants. Then, have the rest of the class vote to decide the "winner."

As a follow-up to the debate, distribute copies of **Student Handout 2—America's Debt in the Future** and, as a homework assignment, ask students to complete it. After handouts have been completed, lead a discussion about each of the items.

Student Handout 1

Ranking the Budget's Programs

Listed below are fifteen categories of federal programs. You are the budget director and must present the final budget to the president. Rank the programs in order of priority, using number 1 for the most important item down to number 15 for the least important. Also indicate the percentage of the federal budget that you want to devote to each category. You may eliminate any programs you believe unnecessary and add any you believe essential.

Priority Rank	Percent of Budget	
_____	_____	Defense
_____	_____	Foreign aid
_____	_____	Social Security increases
_____	_____	Housing for low-income families
_____	_____	Farm subsidies
_____	_____	Food stamps
_____	_____	Space research and technology
_____	_____	Highway construction
_____	_____	Health care program
_____	_____	Education
_____	_____	Unemployment benefits
_____	_____	Welfare
_____	_____	Drug control
_____	_____	Environmental protection
_____	_____	Crime control

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Student Handout 2

America's Debt in the Future

After preparing for and listening to the debates, answer the following questions.

1. Where should deficit reduction be placed on Congress's legislative agenda? Is it the country's most pressing crisis, or are items such as health care, crime, and welfare reform more important? Defend your answer.

2. If government estimates prove correct that the budget deficit will fall to around $180 billion by 1996, would that be sufficient reduction, or should President Clinton and Congress enact further spending cuts and/or tax hikes? Defend your answer.

3. Do you believe that the federal government spends too much money on programs that benefit affluent or older Americans? Should more money be spent on investing in the nation's future? Why or why not?

4. Are you generally optimistic or pessimistic about the state of the American economy by 2000? Do you believe that you will enjoy a better standard of living than your parents? Defend your answer.

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Test Materials

True/False: Use T for true and F for false, and place your answer in the blank. Use the space below the item to correct any statements you think are false.

_____1. The national debt is the amount by which the federal government's yearly spending exceeds its collected revenues.

_____2. President Franklin Roosevelt believed that a balanced budget was necessary to pull the nation out of the Great Depression.

_____3. Some experts argue that the national debt is not a real debt because it is money "we owe to ourselves."

_____4. Entitlement programs are an example of discretionary spending.

_____5. According to most opinion polls, the public believes that crime and health care are more important issues than the deficit.

Multiple Choice: Circle the letter preceding the correct answer.

6. The government projects that the budget deficit in FY 1994 will be roughly:

   a. $250 billion.
   b. $100 billion.
   c. $350 billion.
   d. $4 trillion.

7. During what decade did the national debt nearly triple to almost $3 trillion?

   a. the 1940s
   b. the 1960s
   c. the 1970s
   d. the 1980s

8. Which of the following entitlement programs is not considered one of the "Big Three?"

   a. Social Security
   b. welfare (Aid to Families with Dependent Children)
   c. Medicare
   d. Medicaid

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9. Federal spending on entitlements will increase dramatically over the next few decades because:

a. a larger portion of the population will be retired.
b. most entitlements are means tested.
c. new entitlements are being created by the government.
d. all of the above are true.

10. Why did President Clinton, in late 1993, oppose the Penny-Kasich package of spending cuts?

a. The package did not sufficiently reduce the deficit.
b. The president does not believe that the deficit is a major problem.
c. The package did not address entitlement programs.
d. The president thinks that additional spending cuts should be used to finance health care reform and other programs, not deficit reduction.

Fill in the Blank: Complete each statement.

11. The price of borrowing money is called _____.

12. President Clinton's director of the Office of Management and Budget is_____.

13. In 1992, independent presidential candidate Ross Perot said he could find almost $200 billion in government "_____, _____, and _____" to cut from the federal budget.

14. President Clinton's proposal to reform the health care system has two major goals: (1) _____ and (2) _____.

15. An "affluence test" on recipients of Social Security, Medicare, and other entitlements is a key feature of the deficit reduction plan offered by_____.

Essay: Write a complete answer for each of the following questions.

16. Discuss the specific economic and spending policies that were enacted in the 1980s that caused the budget deficit to increase to over $200 billion by 1986.

17. Explain why many economists and lawmakers do not believe that large deficits and a $4 trillion national debt are necessarily a serious problem.

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Answer Key

1. F—The national debt is the money the United States owes from borrowing to pay off all the accumulated annual budget deficits since the nation's beginning.
2. F—Roosevelt believed that deficit spending was essential to create jobs and security for victims of the Great Depression.
3. T
4. F—Entitlements are mandatory spending programs.
5. T
6. a
7. d
8. b
9. a
10. d
11. interest
12. Leon Panetta
13. waste, fraud, and abuse
14. universal health coverage and containment of rising medical costs
15. the Concord Coalition

16. In the early 1980s, Congress approved tax cuts and increases in the defense budget proposed by President Ronald Reagan. In addition, Congress protected expensive social programs such as Social Security, Medicare, and Medicaid from the budget axe. The combination of higher federal spending and lower taxes produced deficits that grew to over $200 billion by the middle of the decade.

17. Some experts believe that America's debt and deficits are not an emergency for a number of reasons. They point out that the national debt is only one-half of the size of the nation's economy. According to these critics, as long as the economy grows faster than the debt, the danger posed by budget deficits is small. In addition, some economists contend that the deficits and debt comprise money the nation owes to itself—specifically to American banks, corporations, and individuals. So, because the billions of dollars the government pays in interest to these creditors stay inside the United States, these experts believe that the debt's drag on the nation's economy has been exaggerated.